

# Worshipful Company of International Bankers Oral History Collection

## Interview Summary Sheet

## Title Page

**Ref. No.:**

**Collection title:** Old City, New City (1979-86)

**Interviewee's surname:** Newman

**Title:** Mr

**Interviewee's forenames:** Thomas

**Sex:** M

**Occupation:** Investment banker; London branch manager, Crocker National Bank

**Date of birth:** 1946

**Father's occupation:** Investment banker

**Mother's occupation:** Housewife

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Relationship between Crocker and the Bank of England	#00:06:58#
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**Interviewee: Tom Newman**

**Date: 13 March 2019**

**Interviewer: John Thirlwell (Q1), Gerald Ashley (Q2)**

[00'00 Biography]

Q1: Tom.

A: John.

Q1: On 13 March 2019. First thing, on what year were you born?

A: 1946.

Q1: And educated?

A: Educated at a state school in America, outside Chicago. Then to Princeton. And then after a stint in the navy, an MBA from the University of California, Berkeley.

Q1: And what did your father do?

A: He worked as an investment banker in the municipal bond business.

Q1: And your mother?

A: She was a housewife.

Q1: And was the investment banking--, did that draw you yourself into banking?

A: No, I was going to become a doctor, but ultimately I figured out--, I majored in economics and went that way. So it probably had an influence on me.

[01'13 London branch manager, Crocker National Bank; activities and funding of Crocker, London]

Q1: Now, as you know, we're talking about the period 1979 to '86, and you came to London when?

A: I came to London March 30 in 1980.

Q1: And with which bank?

A: With Crocker National Bank.

Q1: And what, exactly, were you doing when you arrived there?

A: I was sent over to be the branch manager.

Q1: Right. And what sort of, I mean, was it a branch, was it a local...?

A: It was a regional office, officially. So we had a branch that did full branch services. And we also lent money and provided dollar services throughout Europe, Middle East and Africa.

Q1: So that was the EMEA regional office for Crocker?

A: Yes. So the Head of EMEA was in London and was my boss.

Q1: Okay, and you were the branch manager for...?

A: And so I had responsible for the branch and, ultimately, kind of the UK lending and--, UK Nordics to start out with, and then also the rest of Europe.

Q1: And, again, what, exactly, was the branch, sorry, was the office actually doing at that...?

A: The office had a combination of processes. Obviously it had a large deposit book, where we placed deposits in the Euro markets. And we did foreign exchange fairly actively as a market player. We lent, corporate-wise, in the UK, and also did some corporate lending, a little bit of corporate lending in Europe and the Middle East and South Africa. Lots of that was syndicated lending. And we also sold dollar clearing services, in which we were reasonably placed.

Q1: And where did the deposits come from?

A: The deposits came from the domestic side. So we would place those in the Euro market, where you could earn a better return.

Q1: And the customers, the borrowers, as it were, the UK...?

A: Well, the deposit book, it was inter-bank.

Q1: Right.

A: So, I mean, we would be lending to all the big foreign banks who needed Euro dollar deposits.

Q2: So you effectively operated through the money market--,

A: Yeah.

Q2: To recycle these dollars which had originally come from the deposit base in the United States.

A: Correct.

Q2: Right.

A: So, originally the bank ran a very profitable book, taking deposits and putting it into the municipal bond market, where banks don't pay taxes. And then that kind of went down, and so one of the places that they could then move is into the euromarkets. So placing...

Q2: And this was pretty much mainly cash or the whole range of money market instruments you were involved in?

A: I'm not sure of the exact term structure...

Q2: I'm just thinking maybe commercial, paper or CDs, that sort of thing, maybe.

A: It would have been, I would have said it would have been primarily inter-bank. I'm sure we did have some CDs, but I would have thought it was mostly just inter-bank deposits. And term structure would have been kept reasonably short, so I would have thought three months.

Q2: So it's quite a liquid book in that sense?

A: Yeah, pretty much a liquid book. It wouldn't have been going up long time in years.

[05'29 Internationalisation of the City]

Q1: We're talking of a period when London's internationalisation really, really grew on the banking side. I mean, what are your memories of that kind of internationalisation?

A: A little bit hard for me to say because of the fact that I--, when I arrived I didn't really know what was before, other than the stories of the three day week<sup>i</sup> and the exchange controls<sup>ii</sup> and all the things. But I didn't--, I wasn't there, so I didn't function in that. So to me it was kind of coming to a green field where there were opportunities, and then the question became where we had competitive advantage and could add er, good assets or provide services. So we were--, our dollar-based services, clearing services, was a big business, which fit with the deposit book and that sort of stuff. And that we were in competition with the New York banks. So we were an alternative to the New York banks, which a lot of people wanted. So we had some major European clients, and UK clients as customers, mini banks.

[06'58 Relationship between Crocker and the Bank of England]

Q2: Tom, as part of your role, were you directly involved with the Bank of England, or was that your boss as the Head of EMEA?

A: I was involved with the Bank of England as branch manager. My boss would have been involved as well and was probably involved...

Q2: Did you have regular meetings or...?

A: Yeah, yeah, we had regular meetings and they would come by. Peter Cooke<sup>iii</sup> was our guy that would come and kind of--, so they were er, was obviously involved with us. And particularly as we did do a fair amount of foreign exchange trading, I think they kept an eye on that.

Q2: I was just going to say, were you--, did you feel you were under quite a bit of scrutiny or was it a fairly easy going regime?

A: I would have said it was fairly easy going. Kind of softly, softly in the Bank of England way they do things, as compared with the American thing, that says, "Don't do that," [emphasises] they say it quite--, and so you kind of have to read between the--, so my boss had been with Standard Chartered, was originally from Scotland. So he kind of knew the speak and the language, which--, so provided me guidance of, that's not what they meant.

Q2: Yes, so that lovely, indirect English.

A: Yeah, so, you know, kind of--, that doesn't mean, "Well, think about it", it means, "Do it".

[08'45 Takeover by Midland of Crocker; the Crocker loan book; relations between Midland and Crocker]

Q1: The word Crocker immediately has a resonance, and you were at the right place, really, in the

right time. So tell us about the Midland takeover. Why did the two banks come together?

A: Well, the two banks came together, I believe, because the two Wilcox's were looking for a deal. And Malcolm<sup>iv</sup> was looking for a presence in the US, because all the other banks had one, so he needed one. And Tom Wilcox<sup>v</sup> wanted additional capital in order to do new and different things, because he felt, I think, that he had achieved a lot with Crocker kind of having come in and was looking for his next thing that he could do. I mean, he was quite erm, quite active and he was quite--, did lots of things at Citibank. So when he got--, lost out in the race, I mean, he came to Crocker and wanted to do lots and he wanted to make Crocker the JP Morgan of the West Coast. And in doing that, I think, he'd achieved a lot and wanted to do some more, so he wanted more capital in order to play the game. And he wanted capital from somebody who was going to let him do what he wanted to do, rather than be taken over.

Q1: And that point about allowing him to do whatever he wanted to do, so what was the sort of relationship between Crocker and Midland?

A: Well, I think, I mean, after Midland finalised the investment, they had a number of people involved. They had somebody in Crocker. They had 40% initially. So they kept very much a watching brief, I'll say, but kind of, for the most part were looking for Crocker to come up with plans that they then could approve and strategies and--, but not involved in, per se, the day-to-day.

Q2: So it was a little bit arm's length in that sense?

A: Yeah, I think that was one of Tom Wilcox's goals, was to keep it at arm's length. Now, over time that changed, because of the fact that -- the 400 million<sup>vi</sup> came at the time where Reg Q<sup>vii</sup> was eliminated, which made profitability less attractive for a branch-based bank in California, and as such they needed to look for additional assets to deploy with this additional capital. And they put the money in, not totally in any way, but large chunks of it into Latin America, into construction finance and into agriculture. And all of those very much with Midland's knowledge and agreement. But obviously those three places were not good places and they were...

Q1: Even agriculture?

A: Agriculture turned bad, perhaps more because of--, some of the loans that Crocker picked up were probably not as good as one would want. So they were probably not as high quality as-- , agricultural loans rarely change. The farmer isn't going to change banks unless there's a reason.

Q1: Good point.

A: They're just conservative. And so a bunch of--, to pick up loans, you probably pick up loans from unhappy farmers.

Q1: The reason for my question about the...

A: I mean, it's agri-business in California too, I mean, they still are big businesses, they're not teeny, tiny guys.

Q1: Yeah, my point about--, asking you about the relationship between Crocker and Midland is that the sort of folk story is that it was really sort of drawing teeth to get any information from Crocker to Midland.

A: I think there was a certain reticence of giving detailed information. I do, unequivocally, believe that Midland at the top levels were thoroughly au fait on where the decisions were made to invest that money, i.e., to expand the loan book in Latin America, expanded in construction and expanded in agriculture. But, yeah, there was--, I think there was a reticence, particularly in the start, and was-- of releasing information, and I think Tom Wilcox wanted to run his bank.

Q2: Did this directly impact you straight away, Tom, because obviously you've now got a parent, or a large partner at the very least? It's just round the corner in London.

A: Well, not really, I mean, they pretty much let us continue as we were. We did start to do, very much, joint marketing exercises with the Midland people. So we would go in together, and they obviously had a huge sterling relationship and we were trying to sell dollar-based loans, either here or in America. And so we worked fairly--, we worked well that way and we tried to leverage each other up on the working level for the branch in London. And so to a certain extent, I think we stopped doing marketing for sterling products, just on our—on going cold. I mean we stopped. We had a few relationships prior with sterling, but we--, you know, it didn't make sense to go to--, to try to offer some guy ten million sterling overdraft line if Midland can do it better and cheaper, and so on and so forth. So I think we tweaked our things and we tried to leverage our dollar abilities with their sterling. So they had a great sterling correspondent banking business. We had a good US dollar correspondent banking business. So that kind of fit together. So we, on a working level we knew them, and that was good.

[16'40 Relationship between Crocker and Samuel Montagu<sup>viii</sup>]

And we also worked with Samuel Montagu a bit.

Q2: I was going to ask you about that, so they...

A: So it was--, we--, Midland and Samuel Montagu didn't talk to each other very well, they were different, different groups of people. So it was the clearing bankers, the school leavers versus the Oxbridge types, and so they didn't have a natural communications level. So we could kind of sit between them and translate, because we had no legacy. We didn't have that problem. We spoke a different language and we could talk to the Montagu people and say, "What are you looking to do? Oh, do you know the guy in Midland? Oh, let me introduce you to him."

Q2: Which, in a way, is a little odd, I suppose, but...

A: Well, it's kind of the way the system was.

Q2: And, with Samuel Montagu, this was capital markets, bond issuance or secondary trading in bonds, or not particularly?

A: It was--, it would have been less, at that time it would not have been particularly the bond business. It would have been much more either corporate finance or lending or customer relations or them trying to do maybe an underwriting where there was a corporation that they were looking for in Midland, and they maybe had not had that conversation to leverage up the pieces.

Q2: And maybe your dollar expertise as well if there was a need to do something in dollars?

A: Kind of, yes, but probably less so that way, I would have said. Well, obviously possible. A little bit less likely that Montagu would come up with the dollar needs.

[18'37 The demise of Crocker; Midland Montagu]

Q1: So you had two or three years of working with both Midland and Montagu. And then it changed.

A: Well, it changed as the loans went bad. Then Midland needed to inject more money and they took more ownership. And the relations changed a bit and some of the people changed as well. And so it became--, the size of the losses were substantial enough that it caused Midland, obviously, a lot of problems. And then, ultimately--, so as that happened, I would say we kind of pulled in our horns a bit more and then kind of in erm, autumn of '85 it was really decided to reduce the branch and take it way down to only doing a few things. So we...

Q1: So what sort of head count, for instance, was it...?

A: It was like, we had about 85 people at that time. So by that time the Head of Europe had gone back to California, so...

Q1: Leaving you...

A: Leaving me and kind of--, I got a phone call from him saying, "Take the branch down to 25 people from 85 and be back in three months." And so that kind of, at that point in time, it was a total contraction of the Crocker business there. I mean, we had some other issues there. We had some problem loans in the Middle East that one can question whether that was right. But that had a relationship with our business in LA, where a number of the Saudis were based in LA, as well as us providing them, lending out of London.

Q2: And out in the wider world, of course, London was changing dramatically now, say from '81 to '86, I mean, we've seen the--, well, before '81, the end of exchange control in the UK. We saw the LIFFE <sup>ix</sup>market start and this whole opening up of capital markets and everything. So, in a sense, the sort of Crocker Midland thing wasn't able to tap into that, do you feel, or it did to an extent or...?

A: Erm, I--, no, I wouldn't say that, I would say, I mean, you'd have to judge Midland in the actions that they took. But they were, clearly, by then--, it kind of goes over that period, but



they were, you know, bought Capel<sup>x</sup> and so, you know Capel had that, and Midland was very much into futures and had a very active presence on LIFFE. So, I mean, they were quite involved. Now, we as Crocker were not. Obviously we weren't expanding in that area or in London at all. And so--, but Midland was, and I think Midland was still going where, I'll say, full speed ahead. I mean, that's a unique story. Hervé de Carmoy<sup>xi</sup>--,

Q2: Yes.

A: And Ernst Brutsche were both as part of it.

Q2: They formed Midland Montagu and they actually took a big office, I seem to recall, right down by the Thames. They were in Lower Thames Street.

A: The blue box.

Q1: Yeah, the blue box.

A: So, yeah, so, I mean, that was a big change during that time.

[22'54 Closing the Crocker London branch; Wells Fargo]

Q2: But there was no thought that maybe Crocker, London branch, would be absorbed into that part of the business or...?

A: So Crocker--, so I left the branch in November of er, '85, and the branch was shut down in June of--, when Crocker was sold. So I left in November. It was agreed by Midland to sell Crocker to Wells. January it was announced, and then the deal was closed, I believe, on May 31.

Q2: '86?

A: '86, yeah. And, when that happened the Crocker branch was folded into the Wells Fargo branch. And Wells had, prior, gone through some real reductions. Because they were a big eurobond player. And then they had some problems and they contracted a way down. So they brought the Crocker branch with just a handful of people, I think, remaining, into the Wells branch. Most, I think, were let go.

Q2: And so then it was back to the States and the West Coast and goodbye to London?

A: Yeah, I commuted back to San Francisco for nine months because I left the family here. Because I didn't see that I would be able, particularly once Wells took over, which was totally the three businesses. They did kind of personal, construction finance and a little bit of corporate. So I didn't see that there was any place for me, so I figured I had to come back here. So I ended up staying with the primary dealer in Crocker, that was converted to a company and purchased by Midland Bank from Crocker five minutes before Crocker was sold to Wells. So we signed those papers on that May 31 at about whatever it was, either 11.55, I presume, that night, before the deal was consummated at 12.

Q1: That's why you, yes, you remember that date [laughs].

A: Yeah, so that was erm...

[25'24 Observations on the London market; Morgan Stanley, Salomon Brothers]

Q2: Do you have any broader observations about the London market during your period there? I mean, obviously there was a lot of change and...

A: Well, I mean, there was a lot of change, I mean, you've got erm, Morgan Stanley and Goldman Sachs, they're just customers, they're not really big enough to--, and you certainly wouldn't take them on the inter-bank market. You'd tack a spread onto them. And so they arrived and they started building their offices.

Q2: One thinks of Salomon Brothers with a big office down in Victoria, for example.

A: So yeah, Sal--, well, originally they were in the City and then they moved there, I think. I remember them moving. I can't remember the exactly date. And then, of course, obviously Merrill Lynch and you had a bunch of the other guys as well. The Paine-Webbers and all of those medium, Bear Stearns.

[26'26 Margins and costs squeezed; HMRC's ¼% tax on deposits]

Q2: We've heard from other interviewees a theme which, I think, is actually quite well known, but was the fact that the cost base was going up because people were being paid more competitive salaries. But margins were going down. Do you have any recollection of inter-bank margins and lending margins being squeezed at all during your time?

A: Er--,

Q2: Or perhaps should we...

A: A bit, but not too much, I guess I would say. I mean, we were originally in the local authority loan market, which was a nice little earner, and that disappeared. But for, you know, you make a five year loan and was, I don't know, one and a half over LIBOR. That's not going into the derivative side of it, it was just lending. And that disappeared and, obviously, competing with any of the corporates was always, for the corporate business, was always a big deal and kind of because we were more of a market player in foreign exchange, rather than having a corporate base, we probably didn't see it that much. As far as placing deposits, I don't think it was, I mean, I'm sure there was pressure, but I don't remember it being something that we agonised over. I mean, we still kept a book that was still profitable and we still paid HMRC their agreed, I think it was a quarter percent... tax on that.

Q2: What was that, what was...?

A: A quarter percent on our book.

Q2: Was that a fee that was paid by you [both talking]?

A: That was our tax, it was the attributed spread on what we made.

Q2: Oh, I see.

A: Because we took the money from our domestic, we had to pay HMRC an agreed rate of assumed profit.

Q2: So they assumed you made 25 basis points on the overall total of your book?

A: Yeah.

Q2: Interesting.

A: Yeah, so...

[28'59 Effect of Big Bang – trading ethos, new instruments]

Q1: Not heard that one, yeah.

Q2: Maybe a couple of final questions. How do you see the City now compared to then or when you first came?

A: Ah. Well, I guess, obviously the players have changed, you know, the discount market's gone and all sorts of things. I think moving to a more up-to-date market infrastructure, which the Bank of England orchestrated, and I thought well, and I think Tucker<sup>xii</sup> was a good guy in that. But it's all also, what's not now called non-bank business has grown, a lot of it, repos and stuff, came in during that period of that. Which, as a US bank, we're used to repos and the US system had suffered through screwing up before and taking some big hits. But--, and so I think that worked fairly well. And so you've got a lot more players here. It seems to me that many of the things, I mean, you still have dollar services, you still have lending going around, it's still the same. Probably the biggest difference is the proportions of trading room business compared with commercial business. So the derivatives, foreign exchange has continued to grow, foreign exchange remains that way. Deposit books have slightly changed, given risk weighting issues and leverage issues. So I guess I would say that it's kind of rolled with the times.

Q1: What about relationships as opposed to transactional kind of banking, that change in culture?

A: Well, I mean, I guess I would say, after Big Bang came, and with the investment banks coming in, they were transaction-based. And that changed the whole dimension, which is ultimately what caused the problems, because it did become a transaction-based, 'I want to make as much money on my transaction as I can and I don't care if the guy goes broke tomorrow.' Which, I think, was a real change from what I would have said was the original ethos in bankers and banking. The Eddie George ethos.

Q1: In a way he was afterwards. But you're saying it was after Big Bang was the real change, rather than the run-up?

A: I think so, yeah. I think so, because I think it was the new instruments and kind of, I'll say eurobonds, I know eurobonds have been there a lot before. So it's not--, they weren't--, but they were one of the things where you did a transaction, that's what you wanted, what you

needed. And I think the investment banks kind of that was what--, the people that they brought in, they were not broad-based bankers, they were specialists. And they were specialist to do options or total return swaps, or whatever the case may be. And so they were just looking for doing that transaction. And so the power of the relationship manager in the banks decreased, and the power of the transaction specialist increased. And the power of the transaction specialist paid bonuses, and the relationship manager didn't pay bonuses. So that's where the power went.

Q1: Thank you very much, Tom. That was absolutely fascinating for that precise--, that period, thank you.

A: Thank you.

Q2: Yes, Tom, thank you.

[END OF RECORDING – 00:33:24]

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<sup>i</sup> The Three-Day Week was one of several measures introduced in the United Kingdom by the Conservative government to conserve electricity, the generation of which was severely restricted owing to industrial action by coal miners. The effect was that from 1 January until 7 March 1974 commercial users of electricity were limited to three specified consecutive days' consumption each week and prohibited from working longer hours on those days. [Wikipedia]

<sup>ii</sup> Exchange controls operated within the United Kingdom from the outbreak of war in 1939 until they were abolished by the Conservative Government of Prime Minister Margaret Thatcher in the Budget of October 1979.

<sup>iii</sup> Peter Cooke was Head of Banking Supervision, Bank of England (1976-85).

<sup>iv</sup> Malcolm Wilcox was Chief Executive, Midland Bank ( -1982)

<sup>v</sup> Thomas R Wilcox was Chairman and Chief Executive, Crocker National Bank (1974-81).

<sup>vi</sup> Midland paid \$500m (roughly £400m) for their stake in Crocker.

<sup>vii</sup> Regulation Q sets out capital requirements for banks in the United States. From 1933 until 1986 it imposed various restrictions on the payment of interest on a variety of deposit accounts.

<sup>viii</sup> After the death of founder Samuel Montagu, the bank passed into the ownership of the family trust, Montagu Trust. Midland Bank acquired a share in Montagu Trust in 1967, and so became the first British clearing bank to control a London merchant bank. Samuel Montagu & Co. became a wholly owned subsidiary in 1974.

<sup>ix</sup> The London International Financial Futures and Options Exchange started on 30 September 1982, to take advantage of the removal of currency controls in the UK in 1979.

<sup>x</sup> HSBC acquired James Capel & Company, stockbrokers, in 1986.

<sup>xi</sup> Hervé de Carmoy joined Chase Manhattan Bank in 1963, where he was Chief Executive for western Europe. In 1978, he joined Midland Bank plc, and in 1984 was appointed Chief Executive, Director and member of the Executive Committee of the Midland Plc Group, London.

<sup>xii</sup> Paul Tucker, later knighted and Deputy Governor of the Bank England (2009-13), was at the time a member of the Bank's supervision department.